

Ind AS Transition Facilitation Group (ITFG) Clarification Bulletin 4

‘Ind AS Transition Facilitation Group’ (ITFG) of Ind AS (IFRS) Implementation Committee has been constituted for providing clarifications on timely basis on various issues related to the applicability and /or implementation of Ind AS under the Companies (Indian Accounting Standards) Rules, 2015, raised by preparers, users and other stakeholders.

Ind AS Transition Facilitation Group (ITFG) considered some issues received from members and decided to issue following clarifications¹ on August 19, 2016:

Issue 1

ABC Ltd., which is a manufacturer of TV sets, sells a TV at Rs. 50,000 which includes excise duty of Rs. 5,000. What is the amount to be recognised as revenue? How excise duty should be presented in financial statements? Is there any change in the presentation of excise duty as compared to presentation prescribed in AS 9?

Response

Paragraph 8 of Ind AS 18, *inter alia*, provides that revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue.

Excise duty is a liability of the manufacturer which forms part of the cost of production, irrespective whether the goods are sold or not. Therefore, recovery of excise duty flows to the entity on its own account and the same should be included in the amount of revenue. Accordingly, in the present case, revenue should be recognised at Rs. 50,000/-

With regard to disclosure of Excise Duty, explanation to paragraph 10 of AS 9, *Revenue Recognition*, specifically provides that the excise duty included in the turnover should be shown as reduction from the gross turnover on the face of the statement of profit and loss.

Ind 18, *Revenue*, does not specifically prescribe any guidance for presentation of excise duty. However, under Ind AS reporting framework, revenue from sale of products is presented by including the Excise Duty as discussed above. As per Division - II of Schedule III to the Companies Act, 2013 (i.e. Ind AS based Schedule III) – Note 3 of General Instructions for

¹Clarifications given or views expressed by the ITFG represent the views of the members of the Ind AS Transition Facilitation Group (ITFG) and are not necessarily the views of the Ind AS (IFRS) Implementation Committee or the Council of the Institute. The clarifications/views are based on the accounting principles as on the date the Group finalises the particular clarification. The date of finalisation of each clarification is indicated along with the clarification. The clarification must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of clarifications by the Group.

Preparation of Statement of Profit and Loss, provides that revenue from operations shall disclose separately in the notes:

- (a) sale of products **(including Excise Duty)**;
- (b) sale of services; and
- (c) other operating revenues.

In view of above, since the revenue is the gross amount including excise duty, in the statement of profit and loss prepared under Ind AS, the excise duty should be reflected as an expense.

Issue 2

How revenue should be recognised in case Service Tax is collected from customer for rendering of services?

Response

Paragraph 8 of Ind AS 18, *inter alia*, provides that revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue.

In view of the above, since service tax collected represents the amount collected on behalf of a third party, viz., the government, revenue should be net of service tax collected.

Issue 3

Will the following companies with negative net worth need to comply with Ind AS?

- (a) Company A (listed) having negative net worth of Rs. 600 crore.**
- (b) Company B (unlisted) having negative net worth of Rs. 300 crore.**

Response

Rule 4(1)(ii) and Rule 4(1)(iii) of Companies (Indian Accounting Standards) Rules, 2015, state as follows:

- (ii) *the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-*

- (a) *companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;*
 - (b) *companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;*
 - (c) *holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub-rule (1) as the case may be; and”.*
- (iii) *the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-*
- (a) *companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;*
 - (b) *companies other than those covered in clause (ii) of sub-rule (1) and sub-clause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.*
 - (c) *holding, subsidiary, joint venture or associate companies of companies covered under sub-clause (a) of clause (iii) of sub-rule (1) and sub-clause (b) of clause (iii) of sub-rule (1), as the case may be:*

As per Rule 2(1)(f) of Companies (Indian Accounting Standards) Rules, 2015, “net worth” shall have the meaning assigned to it in clause (57) of section 2 of the Act.

Section 2(57) of Companies Act, 2013, defines ‘net worth’ as follows:

“net worth” means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

In accordance with above provisions, it is clear that Ind AS will be applicable to companies (both listed and unlisted) from financial year 2016-17, if net worth is Rs. 500 crore or more. Therefore, if the net worth of the listed or unlisted company is negative, then Ind AS will not be applicable from F.Y. 2016-17. Accordingly, Ind AS will not be applicable to Company A (listed) and Company B (unlisted) from F.Y. 2016-17.

However, as per the roadmap, Ind AS will be applicable from financial year 2017-18 to all listed companies having net worth less Rs. 500 crore and unlisted companies having net worth Rs. 250

crore or more but less than rupees 500 core. Accordingly, Ind AS will be applicable to Company A (listed) from F.Y. 2017-18, whereas Ind AS will not be applicable to Company B (unlisted) unless net worth criteria being met by Company B subsequently or Ind AS becoming applicable as part of the Group (e.g. holding of Company B is covered under Ind AS) or Company B voluntarily decides to apply Ind AS.

Issue 4

A company covered under Phase I, having net worth of Rs. 600 crores, decides to give comparatives for F.Y. 2015-16 and F.Y. 2014-15. What should be date of transition in this case?

Response

Appendix A to Ind AS 101, *First-time Adoption of Indian Accounting Standards*, defines date of transition as follows:

“The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in first Ind AS financial statements”

The definition of the date of transition as stated above therefore permits an entity to select its date of transition. However, Rule 4(1)(i) and (ii) of the Companies (Indian Accounting Standards) Rules, 2015, state as under:

“The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-

- (i) any company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;*
- (ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely...”.*

In the given case, the Company is required to mandatorily adopt Ind AS from April 1, 2016, i.e., for the period 2016-17, and with comparatives as per Ind AS for 2015-16. Accordingly, the beginning of the comparative period will be April 1, 2015, which will be considered as the date of transition as per Ind AS. Therefore, the date of transition to Ind AS shall be April 1, 2015. The company cannot have the date of transition at April 1, 2014.